

TOWNSHIP OF HILL
Ogemaw County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Hill	County Ogemaw
Audit Date March 31, 2006	Opinion Date August 25, 2006	Date Accountant Report Submitted to State: August 25, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

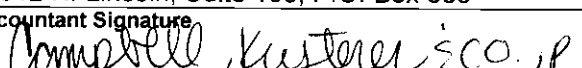
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686	City Bay City	State MI	Zip 48707
Accountant Signature 			

TOWNSHIP OF HILL
Ogemaw County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

August 25, 2006

To the Township Board
Township of Hill
Ogemaw County, Michigan

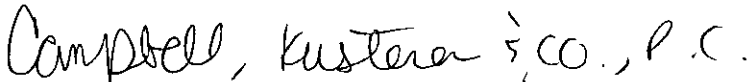
We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Hill, Ogemaw County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Hill's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Hill, Ogemaw County, Michigan as of March 31, 2006, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF HILL
Ogemaw County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

This report covers Hill Township's financial performance during the year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status is sound. We have incurred no debt, we operate on a pay as you go basis. Assets for the General Fund as of March 31, 2006, totaled \$1,089,981.64. Net assets for all funds as of March 31, 2006, totaled \$1,549,093.76. Governmental activities had a \$187,003.73 increase in net assets.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund, Road Fund, Fire Fund, Gypsy Moth Fund, Capital Improvement Fund, Norway Shores Fund, Maple Road Fund and the Current Tax Collection Fund.

TOWNSHIP OF HILL
Ogemaw County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended March 31, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund, the Road Fund, the Fire Fund, the Gypsy Moth Fund, Capital Improvement Fund, Maple Road Fund and the Norway Shores Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

During the year we completed Countyline Road at a cost of \$78,061.50 paid from millage money and contribution from General Fund. We had a Spring and Fall trash clean-up costing \$4,720.00 paid from the General Fund.

We have no debt and our cash position in the governmental activities remains strong.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services with total expenditures of \$191,102.75.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$2,420.00 in capital assets.

The Township's governmental activities paid \$0 of principal on long-term debt.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents a significant portion of our income. We continue to grow at a 3% rate in taxable values with little demand for infrastructure, except good roads and trash disposal. We will be providing a means for trash disposal in the coming fiscal year with the Township paying the cost from the General Fund.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Townships finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township Clerk at (989) 473-2325 or e-mail Clerkhill@aol.com.

TOWNSHIP OF HILL
Ogemaw County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	1 477 170 68
Taxes receivable	<u>36 863 08</u>
Total Current Assets	<u>1 514 033 76</u>
NON-CURRENT ASSETS:	
Capital Assets	83 810 00
Less: Accumulated Depreciation	<u>(48 750 00)</u>
Total Non-current Assets	<u>35 060 00</u>
TOTAL ASSETS	<u><u>1 549 093 76</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES	<u>-</u>
Total Current Liabilities	<u>-</u>
NON-CURRENT LIABILITIES	<u>-</u>
Total Non-current Liabilities	<u>-</u>
Total Liabilities	<u>-</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	35 060 00
Unrestricted	<u>1 514 033 76</u>
Total Net Assets	<u>1 549 093 76</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>1 549 093 76</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HILL
Ogemaw County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

		<u>Program Revenue</u>	<u>Governmental Activities Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Charges for Services</u>	
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	23 024 48	-	(23 024 48)
General government	101 502 55	34 234 87	(67 267 68)
Public safety	46 188 04	-	(46 188 04)
Public works	138 504 89	137 063 25	(1 441 64)
Culture and recreation	443 74	-	(443 74)
Total Governmental Activities	<u>309 663 70</u>	<u>171 298 12</u>	<u>(138 365 58)</u>
General Revenues:			
Property taxes			201 732 97
State revenue sharing			106 980 00
Interest			7 957 23
Miscellaneous			<u>8 699 11</u>
Total General Revenues			<u>325 369 31</u>
Change in net assets			187 003 73
Net assets, beginning of year			<u>1 362 090 03</u>
Net Assets, End of Year			<u>1 549 093 76</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HILL
Ogemaw County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
March 31, 2006

	<u>General</u>	<u>Fire</u>	<u>Road</u>
<u>Assets</u>			
Cash in bank	1 067 766 69	129 214 83	99 476 91
Taxes receivable	22 137 32	6 419 59	7 756 17
Due from other funds	<u>77 63</u>	<u>-</u>	<u>-</u>
Total Assets	<u>1 089 981 64</u>	<u>135 634 42</u>	<u>107 233 08</u>
<u>Liabilities and Fund Equity</u>			
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	<u>1 089 981 64</u>	<u>135 634 42</u>	<u>107 233 08</u>
Total fund equity	<u>1 089 981 64</u>	<u>135 634 42</u>	<u>107 233 08</u>
Total Liabilities and Fund Equity	<u>1 089 981 64</u>	<u>135 634 42</u>	<u>107 233 08</u>

The accompanying notes are an integral part of these financial statements.

<u>Gypsy Moth</u>	<u>Other Funds</u>	<u>Total</u>
161 416 20	19 218 42	1 477 093 05
-	550 00	36 863 08
<u>-</u>	<u>-</u>	<u>77 63</u>
<u>161 416 20</u>	<u>19 768 42</u>	<u>1 514 033 76</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>161 416 20</u>	<u>19 768 42</u>	<u>1 514 033 76</u>
<u>161 416 20</u>	<u>19 768 42</u>	<u>1 514 033 76</u>
<u>161 416 20</u>	<u>19 768 42</u>	<u>1 514 033 76</u>

TOWNSHIP OF HILL
Ogemaw County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

March 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	1 514 033 76
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	83 810 00
Accumulated depreciation	<u>(48 750 00)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>1 549 093 76</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HILL
Ogemaw County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year ended March 31, 2006

	<u>General</u>	<u>Fire</u>	<u>Road</u>
Revenues:			
Property taxes	61 024 24	63 779 04	76 929 69
State revenue sharing	106 980 00	-	-
Charges for services – PTAF	34 234 87	-	-
Interest	6 945 27	248 39	278 07
Special assessments	130 138 25	-	-
Miscellaneous	8 699 11	-	-
Total revenues	<u>348 021 74</u>	<u>64 027 43</u>	<u>77 207 76</u>
Expenditures:			
Legislative:			
Township Board	23 024 48	-	-
General government:			
Supervisor	14 389 83	-	-
Elections	1 376 43	-	-
Assessor	28 472 04	-	-
Clerk	13 472 53	-	-
Board of Review	1 899 40	-	-
Treasurer	17 348 89	-	-
Building and grounds	7 542 41	-	-
Cemetery	425 00	-	-
Unallocated	14 658 02	-	-
Public safety:			
Fire protection	-	45 972 04	-
Public works:			
Highways and streets	13 975 31	-	78 061 50
Street lighting	6 720 65	-	-
Sanitation	4 720 00	-	-
Weed control	32 634 02	-	-
Culture and recreation:			
Library	443 74	-	-
Capital outlay	-	-	-
Total expenditures	<u>181 102 75</u>	<u>45 972 04</u>	<u>78 061 50</u>
Excess (deficiency) of revenues over expenditures	166 918 99	18 055 39	(853 74)
Fund balances, April 1	<u>923 062 65</u>	<u>117 579 03</u>	<u>108 086 82</u>
Fund Balances, March 31	<u><u>1 089 981 64</u></u>	<u><u>135 634 42</u></u>	<u><u>107 233 08</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Gypsy Moth</u>	<u>Other Funds</u>	<u>Total</u>
-	-	201 732 97
-	-	106 980 00
-	-	34 234 87
437 99	47 51	7 957 23
-	6 925 00	137 063 25
-	-	8 699 11
<u>437 99</u>	<u>6 972 51</u>	<u>496 667 43</u>
-	-	23 024 48
-	-	14 389 83
-	-	1 376 43
-	-	28 472 04
-	-	13 472 53
-	-	1 899 40
-	-	17 348 89
-	-	7 542 41
-	-	425 00
-	-	14 658 02
-	-	45 972 04
-	2 393 41	94 430 22
-	-	6 720 65
-	-	4 720 00
-	-	32 634 02
-	-	443 74
-	<u>2 420 00</u>	<u>2 420 00</u>
-	<u>4 813 41</u>	<u>309 949 70</u>
437 98	2 159 10	186 717 73
<u>160 978 21</u>	<u>17 609 32</u>	<u>1 327 316 03</u>
<u>161 416 20</u>	<u>19 768 42</u>	<u>1 514 033 76</u>

TOWNSHIP OF HILL
Ogemaw County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended March 31, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 186 717 73

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(2 134 00)
Capital Outlay	<u>2 420 00</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES 187 003 73

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF HILL
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Hill, Ogemaw County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Hill. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF HILL
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2005 tax roll millage rate was 2.3707 mills, and the taxable value was \$85,448,160.00.

TOWNSHIP OF HILL
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$25.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	15-50 years
Furniture and equipment	5-30 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.

TOWNSHIP OF HILL
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 2 – Budgets and Budgetary Accounting (continued)

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated three banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>1 477 170 68</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	263 020 05
Uninsured and Uncollateralized	<u>1 219 753 44</u>
Total Deposits	<u>1 482 773 49</u>

The Township of Hill did not have any investments as of March 31, 2006.

TOWNSHIP OF HILL
Ogemaw County, Michigan

NOTES TO FINANCIAL STATEMENTS
March 31, 2006

Note 4 – Capital Assets

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	Balance 4/1/05	Additions	Deletions	Balance 3/31/06
<u>Governmental Activities:</u>				
Land	11 225 00	-	-	11 225 00
Buildings	56 432 00	2 420 00	-	58 852 00
Equipment	13 733 00	-	-	13 733 00
Total	81 390 00	2 420 00	-	83 810 00
Accumulated Depreciation	(46 616 00)	(2 134 00)	-	(48 750 00)
Net Capital Assets	34 774 00	286 00	-	35 060 00

Note 5 – Pension Plan

The Township has a defined contribution pension plan covering all full time employees. The Township contributes an amount of each employee's annual salary to the plan. The net pension expense for the fiscal year ended March 31, 2006, was \$2,380.00.

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 – Building Permits

The Township of Hill does not issue building permits. Building permits are issued by the County of Ogemaw.

Note 9 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	77 63	Current Tax Collection	77 63
Total	77 63	Total	77 63

TOWNSHIP OF HILL
Ogemaw County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	50 000 00	50 000 00	61 024 24	11 024 24
State revenue sharing	95 000 00	95 000 00	106 980 00	11 980 00
Charges for services – PTAF	22 000 00	22 000 00	34 234 87	12 234 87
Interest	2 052 00	2 052 00	6 945 27	4 893 27
Special assessments	33 000 00	33 000 00	130 138 25	97 138 25
Miscellaneous	<u>8 426 00</u>	<u>8 426 00</u>	<u>8 699 11</u>	<u>273 11</u>
Total revenues	<u>210 478 00</u>	<u>210 478 00</u>	<u>348 021 74</u>	<u>137 543 74</u>
Expenditures:				
Legislative:				
Township Board	24 050 00	24 050 00	23 024 48	(1 025 52)
General government:				
Supervisor	14 800 00	14 800 00	14 389 83	(410 17)
Elections	6 600 00	5 000 00	1 376 43	(3 623 57)
Assessor	26 000 00	30 000 00	28 472 04	(1 527 96)
Clerk	15 100 00	15 400 00	13 472 53	(1 927 47)
Board of Review	2 650 00	2 650 00	1 899 40	(750 60)
Treasurer	19 700 00	20 000 00	17 348 89	(2 651 11)
Building and grounds	18 800 00	19 800 00	7 542 41	(12 257 59)
Cemetery	500 00	5 000 00	425 00	(75 00)
Unallocated	122 500 00	110 500 00	14 658 02	(95 841 98)
Public works:				
Highways and streets	25 000 00	25 000 00	13 975 31	(11 024 69)
Street lights	7 200 00	7 200 00	6 720 65	(479 35)
Sanitation	-	8 000 00	4 720 00	(3 280 00)
Weed control	47 652 00	47 652 00	32 634 02	(15 017 98)
Culture and recreation:				
Library	<u>600 00</u>	<u>600 00</u>	<u>443 74</u>	<u>(156 26)</u>
Total expenditures	<u>331 152 00</u>	<u>331 152 00</u>	<u>181 102 75</u>	<u>(150 049 25)</u>
Excess (deficiency) of revenues over expenditures	<u>(120 674 00)</u>	<u>(120 674 00)</u>	<u>166 918 99</u>	<u>287 592 99</u>
Fund balance, April 1	<u>314 600 00</u>	<u>314 600 00</u>	<u>923 062 65</u>	<u>608 462 65</u>
Fund Balance, March 31	<u>193 926 00</u>	<u>193 926 00</u>	<u>1 089 981 64</u>	<u>896 055 64</u>

TOWNSHIP OF HILL
Ogemaw County, Michigan

BUDGETARY COMPARISON SCHEDULE – FIRE FUND
Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	65 000 00	65 000 00	63 779 04	(1 220 96)
Interest	<u>150 00</u>	<u>150 00</u>	<u>248 39</u>	<u>98 39</u>
Total revenues	<u>65 150 00</u>	<u>65 150 00</u>	<u>64 027 43</u>	<u>(1 122 57)</u>
Expenditures:				
Public safety:				
Fire protection	<u>83 150 00</u>	<u>83 150 00</u>	<u>45 972 04</u>	<u>(37 177 96)</u>
Total expenditures	<u>83 150 00</u>	<u>83 150 00</u>	<u>45 972 04</u>	<u>(37 177 96)</u>
Excess (deficiency) of revenues over expenditures	(18 000 00)	(18 000 00)	18 055 39	36 055 39
Fund balance, April 1	<u>18 000 00</u>	<u>18 000 00</u>	<u>117 579 03</u>	<u>99 579 03</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>135 634 42</u>	<u>135 634 42</u>

TOWNSHIP OF HILL
Ogemaw County, Michigan

BUDGETARY COMPARISON SCHEDULE – ROAD FUND
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	70 000 00	70 000 00	76 929 69	6 929 69
Interest	<u>250 00</u>	<u>250 00</u>	<u>278 07</u>	<u>28 07</u>
Total revenues	<u>70 250 00</u>	<u>70 250 00</u>	<u>77 207 76</u>	<u>6 957 76</u>
Expenditures:				
Public works:				
Highways and streets	<u>150 250 00</u>	<u>150 250 00</u>	<u>78 061 50</u>	<u>(72 180 50)</u>
Total expenditures	<u>150 250 00</u>	<u>150 250 00</u>	<u>78 061 50</u>	<u>(72 188 50)</u>
Excess (deficiency) of revenues over expenditures	(80 000 00)	(80 000 00)	(853 74)	79 146 26
Fund balance, April 1	<u>80 000 00</u>	<u>80 000 00</u>	<u>108 086 82</u>	<u>28 086 82</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>107 233 08</u>	<u>107 233 08</u>

TOWNSHIP OF HILL
Ogemaw County, Michigan

BUDGETARY COMPARISON SCHEDULE – GYPSY MOTH FUND
Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Interest	<u>530 00</u>	<u>530 00</u>	<u>437 99</u>	<u>(92 01)</u>
Total revenues	<u>530 00</u>	<u>530 00</u>	<u>437 99</u>	<u>(92 01)</u>
Expenditures:				
Public works:				
Gypsy moth	<u>161 530 00</u>	<u>161 530 00</u>	<u>-</u>	<u>(161 530 00)</u>
Total expenditures	<u>161 530 00</u>	<u>161 530 00</u>	<u>-</u>	<u>(161 530 00)</u>
Excess (deficiency) of revenues over expenditures	(161 000 00)	(161 000 00)	437 99	161 437 99
Fund balance, April 1	<u>161 000 00</u>	<u>161 000 00</u>	<u>160 978 21</u>	<u>(21 79)</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>161 416 20</u>	<u>161 416 20</u>

TOWNSHIP OF HILL
Ogemaw County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS

March 31, 2006

<u>Assets</u>	<u>Fire</u>	<u>Road</u>	<u>Gypsy Moth</u>
Cash in bank	129 214 86	99 476 91	161 416 20
Taxes receivable	<u>6 419 59</u>	<u>7 756 17</u>	<u>-</u>
Total Assets	<u>135 634 42</u>	<u>107 233 08</u>	<u>161 416 20</u>
<u>Liabilities and Fund Balances</u>			
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:			
Unreserved:			
Undesignated	<u>135 634 42</u>	<u>107 233 08</u>	<u>161 416 20</u>
Total fund balances	<u>135 634 42</u>	<u>107 233 08</u>	<u>161 416 20</u>
Total Liabilities and Fund Balances	<u>135 634 42</u>	<u>107 233 08</u>	<u>161 416 20</u>

<u>Norway Shores</u>	<u>Maple Road</u>	<u>Capital Improvement</u>	<u>Total</u>
4 125 25	5 496 81	8 596 36	409 326 36
<u>400 00</u>	<u>150 00</u>	<u>-</u>	<u>14 725 76</u>
<u>4 525 25</u>	<u>5 646 81</u>	<u>9 596 36</u>	<u>424 052 12</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>4 525 25</u>	<u>5 646 81</u>	<u>9 596 36</u>	<u>424 052 12</u>
<u>4 525 25</u>	<u>5 646 81</u>	<u>9 596 36</u>	<u>424 052 12</u>
<u>4 525 25</u>	<u>5 646 81</u>	<u>9 596 36</u>	<u>424 052 12</u>

TOWNSHIP OF HILL
Ogemaw County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES – ALL SPECIAL REVENUE FUNDS
Year ended March 31, 2006

	<u>Fire</u>	<u>Road</u>	<u>Gypsy Moth</u>
Revenues:			
Property taxes	63 779 04	76 929 68	-
Special assessments	-	-	-
Interest	<u>248 39</u>	<u>278 07</u>	<u>437 99</u>
Total revenues	<u>64 027 43</u>	<u>77 207 76</u>	<u>437 99</u>
Expenditures:			
General government:			
Building and grounds	-	-	-
Public safety:			
Fire protection	45 972 04	-	-
Public works:			
Highways and streets	-	78 061 50	-
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>45 972 04</u>	<u>78 061 50</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	18 055 39	(853 74)	437 99
Fund balances, April 1	<u>117 579 03</u>	<u>108 086 82</u>	<u>160 978 21</u>
Fund Balances, March 31	<u><u>135 634 42</u></u>	<u><u>107 233 08</u></u>	<u><u>161 416 20</u></u>

<u>Norway Shores</u>	<u>Maple Road</u>	<u>Capital Improvement</u>	<u>Total</u>
-	-	-	140 708 73
3 700 00	3 225 00	-	6 925 00
<u>8 75</u>	<u>9 04</u>	<u>29 72</u>	<u>1 011 96</u>
<u>3 708 75</u>	<u>3 234 04</u>	<u>29 72</u>	<u>148 645 69</u>
-	-	-	-
-	-	-	45 972 04
2 368 59	24 82	-	80 454 91
<u>-</u>	<u>-</u>	<u>2 420 00</u>	<u>2 420 00</u>
<u>2 368 59</u>	<u>24 82</u>	<u>2 420 00</u>	<u>128 846 95</u>
1 340 16	3 209 22	(2 390 28)	19 798 74
<u>3 185 09</u>	<u>2 437 59</u>	<u>11 986 64</u>	<u>404 253 38</u>
<u><u>4 525 25</u></u>	<u><u>5 646 81</u></u>	<u><u>9 596 36</u></u>	<u><u>424 052 12</u></u>

TOWNSHIP OF HILL
Ogemaw County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended March 31, 2006

	<u>Balance</u> <u>4/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/06</u>
<u>Assets</u>				
Cash in Bank	<u>265 31</u>	<u>2 798 665 96</u>	<u>2 798 853 64</u>	<u>77 63</u>
<u>Liabilities</u>				
Due to other funds	265 31	368 013 17	368 200 85	77 63
Due to others	<u>-</u>	<u>2 430 652 79</u>	<u>2 430 652 79</u>	<u>-</u>
Total Liabilities	<u>265 31</u>	<u>2 798 665 96</u>	<u>2 798 853 64</u>	<u>77 63</u>

TOWNSHIP OF HILL
Ogemaw County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year ended March 31, 2006

Cash in bank – beginning of year	<u>265 31</u>
Cash receipts:	
Property taxes	2 798 327 50
Interest	<u>338 46</u>
Total cash receipts	<u>2 798 665 96</u>
Total beginning balance and cash receipts	<u>2 798 931 27</u>
Cash disbursements:	
Township General Fund	218 369 87
Township Road Fund	76 118 70
Township Fire Fund	66 677 26
Township Norway Shores Fund	3 725 82
Township Maple Road Fund	3 309 20
Ogemaw County	1 074 827 10
Kirtland Community College	89 616 09
COOR	34 971 37
West Branch – Rose City School District	573 090 26
Iosco Intermediate School District	32 107 14
Hale School District	585 937 73
Ogemaw District Library	23 554 15
Londo Lake Improvement Board	4 439 07
Refunds	<u>12 109 88</u>
Total cash disbursements	<u>2 798 853 64</u>
Cash in Bank – End of Year	<u>77 63</u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

August 25, 2006

To the Township Board
Township of Hill
Ogemaw County, Michigan

We have audited the financial statements of the Township of Hill for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Hill in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Hill
Ogemaw County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

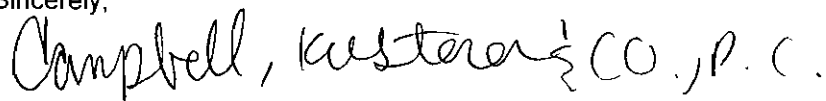
We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2006.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,



CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants